

June 6, 2024

The Honorable Sheldon Whitehouse
U.S. Senate
530 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Chuck Grassley
U.S. Senate
135 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Ron Wyden
U.S. Senate
221 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Lloyd Doggett
U.S. House of Representatives
2307 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Mike Kelly
U.S. House of Representatives
1707 Longworth House Office Building
Washington, D.C. 20515

The Honorable Danny Davis
U.S. House of Representatives
2159 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Adrian Smith
U.S. House of Representatives
502 Cannon House Office Building
Washington, D.C. 20515

The Honorable Earl Blumenauer
U.S. House of Representatives
1111 Longworth House Office Building
Washington, D.C. 20515

The Honorable Brian Fitzpatrick
U.S. House of Representatives
271 Cannon House Office Building
Washington, D.C. 20515

The Honorable Joaquin Castro
U.S. House of Representatives
2241 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Tony Gonzales
U.S. House of Representatives
2244 Rayburn House Office Building
Washington, D.C. 20515

Dear Senators Whitehouse, Grassley, and Wyden and Representatives Doggett, Kelly, Davis, Smith, Blumenauer, Fitzpatrick, Castro, and Gonzales:

I am writing on behalf of Education Finance Council (EFC) to endorse S. 2920/H.R. 3000, the *Tax-Free Pell Grant Act*. EFC supports your proposal to allow college students to keep more of their grant and scholarship aid. Your legislation also simplifies the federal tax code and will make college more affordable for hundreds of thousands of families from lower-income and middle-class backgrounds.

EFC is the national trade association representing nonprofit and state-based higher education finance organizations. EFC members work to increase postsecondary education access, success, and affordability by providing a wide range of resources and services to millions of students and families every year. EFC members are driven by a public purpose mission to support students as they seek to grow their skills and improve their lives.

Currently, Pell Grant recipients who use a portion of their award on expenses other than tuition, fees, and course materials must report this part of their grant to the Internal Revenue Service as taxable income. Regrettably, students' living costs associated with college enrollment like housing, transportation, childcare, and food have skyrocketed in the last two decades. For example, commuter students attending a public two-year institution will devote roughly 72 percent of their budgets to living expenses, while tuition, fees, and books make up just over a quarter of their budgets.¹

The American Opportunity Tax Credit (AOTC) provides up to \$2,500 in tuition assistance to eligible students, but it requires students to subtract their Pell Grant award from eligible expenses. To maximize their AOTC credit, Pell Grant recipients must engage in a sophisticated calculation process to determine the optimal amount of Pell money to include as taxable income. This task is particularly burdensome for these individuals, as they usually lack access to advanced tax preparation resources.

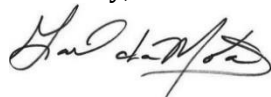
An alarming number of students inadvertently reduce their AOTC eligibility or encounter unexpected tax penalties because of the archaic federal tax structure. Approximately three million students annually have their grants or scholarships taxed, and data from the Department of Education reveals that over 700,000 students are negatively impacted by the interaction between the Pell Grant and AOTC every year.²

The *Tax-Free Pell Grant Act* addresses these issues by making Pell Grants entirely tax-free and removing the requirement for students to subtract their Pell Grants from expenses eligible for the AOTC. This legislative change will simplify the tax process, allow students to retain more of their critical financial aid, and reduce the financial burden that threatens students' success.

EFC endorses the *Tax-Free Pell Grant Act*, which will make a profound difference in the lives of many historically disadvantaged students. Your legislation will help students afford their basic needs, complete their education, and successfully apply their new skills in the workforce.

EFC looks forward to working with you and your colleagues to pass the legislation as a standalone measure or incorporate the proposal in any future tax reform package. We are eager to support you and your colleagues as you seek to improve the federal commitment to Pell Grant recipients. Thank you for your attention to this critical issue.

Sincerely,



Gail daMota
President

CC: The Honorable Mike Crapo
The Honorable Jason Smith
The Honorable Richard Neal

¹ The College Board. *Trends in College Pricing and Student Aid 2023*. Figure CP 1. Accessed on June 5, 2024.

² The Hope Center for Student Basic Needs. *The Hope Center's 2024 Federal Policy Priorities*. Accessed on June 5, 2024.